

SANTA FE INSTITUTE
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018



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**SANTA FE INSTITUTE
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YEAR ENDED DECEMBER 31, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Fe Institute, a nonprofit organization which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Fe Institute as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2019, on our consideration of Santa Fe Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Fe Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Fe Institute's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
September 3, 2019

**SANTA FE INSTITUTE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,708,639
Receivables:	
Grants	501,815
Other Receivables	367,773
Prepaid Expenses	8,073
Endowment Assets Appropriated for Expenditure	521,080
Total Current Assets	5,107,380

NONCURRENT ASSETS

Property and Equipment, Net	10,080,061
Related Party Receivable	424,746
Investments	28,187,905
Total Noncurrent Assets	38,692,712

Total Assets	\$ 43,800,092
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 257,441
Accrued Payroll and Related Liabilities	457,003
Deferred Revenue	150,833
Total Current Liabilities	865,277

NET ASSETS

Without Donor Restrictions:	
Undesignated	10,855,255
With Donor Restrictions:	
Purpose Restrictions	20,406,450
Subject to Appropriation	(425,190)
Perpetual in Nature	12,098,300
Total With Donor Restrictions	32,079,560
Total Net Assets	42,934,815

Total Liabilities and Net Assets	\$ 43,800,092
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See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
ACtioN (Formerly Business Network)	\$ 1,561,150	\$ -	\$ 1,561,150
Government Grants	1,580,238	-	1,580,238
Gifts and Nongovernment Grants	4,811,707	1,682,223	6,493,930
Tuition	475,232	-	475,232
Net Investment Income (Loss)	(253,000)	(5,932,352)	(6,185,352)
Net Assets Released from Restrictions - Satisfaction of Restrictions	1,601,725	(1,601,725)	-
Total Revenue, Support, and Gains	9,777,052	(5,851,854)	3,925,198
EXPENSES			
Program Service	8,872,060	-	8,872,060
Fundraising and Development	297,411	-	297,411
Management and General	2,545,623	-	2,545,623
Total Expenses	11,715,094	-	11,715,094
CHANGE IN NET ASSETS	(1,938,042)	(5,851,854)	(7,789,896)
Net Assets - Beginning of Year	12,793,297	37,931,414	50,724,711
NET ASSETS - END OF YEAR	\$ 10,855,255	\$ 32,079,560	\$ 42,934,815

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Program Service	Management and General	Fundraising and Development	Total
Salaries and Wages	\$ 4,707,706	\$ 1,514,975	\$ 253,056	\$ 6,475,737
Professional Services	1,342,658	408,762	7,545	1,758,965
Conferences, Conventions, and Meetings	1,288,216	68,360	11,515	1,368,091
Travel	640,562	28,714	1,378	670,654
Depreciation and Amortization	266,356	29,595	-	295,951
Information Technology	73,484	211,030	5,281	289,795
Office Expenses	132,155	93,829	16,307	242,291
Insurance	103	136,923	-	137,026
Grants and Other Assistance	130,555	-	-	130,555
Other	51,125	24,644	1,183	76,952
Advertising and Promotion	70,603	2,886	-	73,489
Dues and Subscriptions	61,418	8,477	461	70,356
Repairs and Maintenance	54,194	6,022	-	60,216
Occupancy	51,889	5,765	-	57,654
Taxes and Licenses	-	3,325	685	4,010
Training and Development	518	2,316	-	2,834
Interest	518	-	-	518
Total Expenses by Function	<u>\$ 8,872,060</u>	<u>\$ 2,545,623</u>	<u>\$ 297,411</u>	<u>\$ 11,715,094</u>

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (7,789,896)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	295,951
Donated Assets	-
Realized and Unrealized (Gain) Loss on Investments	6,698,433
Debt Forgiveness - Principal	100,000
Debt Forgiveness - Interest	5,405
Writeoff of ACTioN Receivables	-
Changes in Assets and Liabilities:	
Receivables	(561,010)
Other Current Assets	11,112
Current Liabilities	48,453
Net Cash Used by Operating Activities	<u>(1,191,552)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investments Purchased	(12,367,418)
Proceeds of Investments Sold	14,947,493
Purchase of Property and Equipment	(788,415)
Net Cash Provided by Investing Activities	<u>1,791,660</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

600,108

Cash and Cash Equivalents - Beginning of Year

3,108,531

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 3,708,639

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES

Debt Forgiveness - Principal	\$ 100,000
Debt Forgiveness - Interest	<u>5,405</u>

See accompanying Notes to Financial Statements.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Santa Fe Institute (the Institute), a nonprofit New Mexico corporation, was organized to create a new kind of scientific research community to pursue emerging trans-disciplinary science. Its primary mission is to conduct research in the physical, biological, and social sciences; to catalyze new collaborative projects that break down barriers between traditional disciplines; to spread its ideas and methodologies to other scientists via educational programs; and to encourage the practical application of its results. Funding for the operation of the Institute comes from government, foundations, corporations, and individual contributions.

Basis of Accounting

The Institute prepares its financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP) on the accrual basis of accounting.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

The Institute reports gifts of land, buildings, and equipment as support without donor restrictions unless restrictions are placed on the asset by the donor. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Institute also offers a business network membership program (ACtioN). ACtioN revenues are prorated over the membership term which is a calendar year. Membership received prior to year-end are recorded as deferred revenue and recognized as revenue in the following year. When revenue is recognized, membership fees are received and are reported as without donor restrictions.

Use of Net Assets With Donor Restrictions

When expenses are incurred for which either net assets with or without donor restriction may be used, net assets with donor restriction are used first.

Grants Receivable

Grants receivable are amounts due from various federal, foundation, and corporate grants as of year-end. Grants receivable balances result primarily from unreimbursed grant expenditures as of the end of the fiscal year. Uncollectible grants receivable are expected to be immaterial.

Other Receivables

Other receivables are amounts due from various sources as of year-end. The Institute determines its allowance for other receivables considering their knowledge of collectability. There was no allowance for doubtful accounts as of December 31, 2018.

Donations and In-Kind Contributions

Donated assets, including investments, and in-kind contributions are recorded at their estimated fair market value at the date of receipt.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Investments

Investments consist of equity stock and mutual funds which are recorded at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Realized and unrealized gains and losses are recognized in the statement of activities.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost or fair market value when received, if donated. Provision for depreciation is computed using the straight-line method over the estimated useful life of the property. Furniture, equipment, computers and software over \$5,000 is capitalized and depreciated over 3 to 10 years. Buildings and improvements and capitalized interest are depreciated over 30 to 39 years. Certain computer equipment items have been purchased with federal funds but vest with the Institute at the end of the applicable grant period.

Income Taxes

The Institute files an exempt organization return in the U.S. federal jurisdiction. The Institute has no unrecognized tax benefit which would require an adjustment to the January 1, 2018 beginning balance of net assets and had no unrecognized tax benefits at December 31, 2018.

Functional Allocation of Expenses

The costs of providing SFI's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Allocated costs are primarily made up of payroll and occupancy, which are allocated based on time and effort and square footage, respectively.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

NOTE 2 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

Corporate Stock – Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds – Valued at the net asset value (NAV) of shares held by the Institute at year-end using prices quoted by the relevant pricing agent.

Hedge Fund – Valued at fair value of the fund's net assets value (NAV) equivalent as of the measurement date as a practical expedient, as determined by the Institute, in instances where there is not a readily determinable fair value. In determining fair value, the Institute utilizes valuations provided by the investment funds. The investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the funds, which may include private placements and other securities for which prices are not readily available, are determined by the managers of the investment funds, which in turn is based on the most recent information available to the fund manager for the underlying, including the audited financial statements of the underlying funds, and may reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The valuation methods used by the Institute may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table is a summary of the Institute's assets valued at fair value as of December 31, 2018 using Level 1 measurements and NAV practical expedient:

Mutual Funds	\$ 12,759,118
Corporate Stock	11,759,971
Equities	-
Total Assets in the Fair Value Hierarchy - Level 1	24,519,089
Investment Measured at NAV Practical Expedient	4,189,896
Investments at Fair Value	\$ 28,708,985

The following summarizes information related to the investment whose fair value is determined based upon NAV – practical expedient and has redemption restrictions:

	Estimated Fair Value	Redemption Frequency	Redemption Notice Period	Underfunded Commitments
<u>December 31, 2018</u>				
Hedge Fund	\$ 4,189,896	Quarterly	30 Days	\$ -
<u>December 31, 2017</u>				
Hedge Fund	\$ 8,990,696	Quarterly	30 Days	\$ -

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2018:

Assets Not Being Depreciated:	
Land	\$ 4,774,192
Artwork	497,441
CIP	561,787
Total Assets Not Being Depreciated	5,833,420
Assets Being Depreciated:	
Building and Improvements	8,947,271
Ground Improvements	189,884
Equipment	216,740
Computer Equipment and Software	1,069,457
Furniture and Fixtures	278,010
Total Assets Being Depreciated	10,701,362
Less: Accumulated Depreciation	(6,454,721)
Total Capital Assets Being Depreciated, Net	4,246,641
Total Capital Assets, Net	\$ 10,080,061

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to Expenditure for Specified Purpose:	
Various Research	\$ 14,956,450
Various Use and Resale	<u>5,450,000</u>
Total	20,406,450
Subject to Appropriation:	
Endowment Earnings	<u>(425,190)</u>
Not Subject to Appropriation:	
Endowment Funds	<u>12,098,300</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 32,079,560</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Satisfaction of Purpose Restrictions:	
Various Research	\$ 655,455
Appropriation of Endowment Earnings	521,080
Underwater Endowment	<u>425,190</u>
Total	<u><u>\$ 1,601,725</u></u>

NOTE 5 PENSION PLAN

The Institute has a defined contribution pension plan covering all employees. The plan is administered by the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The employer's match is currently 4% of contributing employees' salaries. Pension expense was \$159,318 in 2018.

NOTE 6 CONCENTRATION OF CREDIT RISK

The Institute maintains a majority of its cash accounts in one commercial bank, with the remainder being held with one investment broker. The amounts on deposit in interest bearing accounts and certificates of deposit at and during the year ended December 31, 2018 exceeded the insurance limits of the Federal Deposit Insurance Corporation. At December 31, 2018, the Institute's uninsured balance was \$2,676,470.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 ENDOWMENT

The Institute's endowment consists of a single pooled fund. All endowments are classified as net assets with donor restrictions as per the endowment agreements. Income is available and used for purposes deemed appropriate by the Institute subject to use restrictions imposed by donor gift agreements informed by internal policies. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of trustees of the Institute has interpreted the applicable governing law (Article 9, Uniform Management of Institutional Funds Act of the State of New Mexico) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as subject to appropriation until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by the previously referred to act.

The endowment net asset composition by type consisted of entirely endowment funds with donor restrictions as of December 31, 2018.

Changes in endowment net assets for the fiscal year ended December 31, 2018:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2018</u>			
Endowment Net Assets - Beginning of Year	\$ -	\$ 14,710,997	\$ 14,710,997
Investment Return	-	(2,516,807)	(2,516,807)
Contributions, Reversions, and Changes in Donor Restrictions	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(521,080)	(521,080)
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ 11,673,110</u>	<u>\$ 11,673,110</u>

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that, as of December 31, 2018, places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints. A separate pool was established in 2016 for net assets without restrictions that do not allow for reduction of the corpus associated with investment losses.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7 ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

Appropriation of funds is determined, in part, based on donor stipulations and approved by the Institute's Finance Committee.

Return Objectives and Risk Parameters

The objective of the investment program is to enhance the Institute's endowment fund portfolio through total investment return, and to provide current operating income through the interest, capital gains, and dividends that the fund generates. The investment program incorporates prudent risk constraints.

NOTE 8 RELATED PARTY RECEIVABLE

Effective August 1, 2015, the Institute provided the President with three loans, each of which is documented by a Promissory Note prescribing interest compounded annually (at the then Applicable Federal Rate of 1.77%), repayment schedule, and consequences of default, among other terms. Principal and interest under these notes is due five years from the Effective date. One of these loans, in the amount of \$300,000, plus accrued interest, will be forgiven in increments of \$100,000 on the third, fourth, and fifth anniversary of the Effective Date, respectively. The second of these loans, in the amount of \$100,000, plus accrued interest, will be forgiven in the event the Institute's perpetual endowment investment pool increases by at least \$20 million dollars within five years of the Effective Date. The third loan in the amount of \$100,000, is repayable in full within five years of the Effective Date.

The amount of principal and interest forgiven was \$105,405 for 2018.

NOTE 9 LIQUIDITY NOTE

SFI has a goal to maintain financial assets, which consist of cash, net realizable value of receivables, short-term investments, and endowment assets appropriate for expenditure to meet at a minimum of 60 days of normal operating expenses, which are, on average, approximately \$1,926,000. For purposes of analyzing resources available to meet general expenditures over a 12-month period, SFI considers all expenditures related to ongoing activities including governance, facilities, regulatory programs, member services, and publications. SFI includes in its consideration those expenditures covered by donor-restricted resources. As part of its liquidity management, excess cash will be invested in liquid income-producing instruments, to the extent that it is allowed by funding agencies.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9 LIQUIDITY NOTE (CONTINUED)

Financial assets available to meet general expenditures over the next 12 months are as follows:

Current Financial Assets	\$ 4,578,227
Endowment Assets Appropriated for General Expenditures	<u>521,080</u>
Total Financial Assets Available to Meet General Expenditures Over the Next 12 Months	<u><u>\$ 5,099,307</u></u>

Furthermore, SFI has a goal to maintain cash and cash equivalents and investments in excess of net assets with donor restrictions to ensure the ability to hold net assets restricted in perpetuity and to meet purpose restrictions for various research. An analysis of net assets with donor restriction compared to cash and cash equivalents and investments on hand as of December 31, 2018 is as follows:

Net Assets with Donor Restriction	\$ 32,079,560
Long-term Investments	(28,187,905)
Contributed Property Restricted for Various Use and Resale	<u>(5,450,000)</u>
Amount in Excess of Donor Restrictions	<u><u>\$ (1,558,345)</u></u>

NOTE 10 SUBSEQUENT EVENTS

The Institute has evaluated subsequent events through September 3, 2019, the date on which the financial statements were available to be issued. There were no subsequent events necessary for disclosure.

NOTE 11 CHANGE IN ACCOUNTING PRINCIPLES

The Institute changed accounting policies related to presentation of financial statements and notes about liquidity and financial performance by adopting FASB Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018.

NOTE 12 ACCOUNTING STANDARDS CHANGES

In May 2014, FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

**SANTA FE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 12 ACCOUNTING STANDARDS CHANGES (CONTINUED)

Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for SFI for annual periods beginning after December 15, 2018. Management is currently evaluating the impact of the amended revenue recognition guidance on its financial statements.

In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This amended guidance distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, Not-for-Profit Entities-Revenue Recognition, should be followed. For exchange transactions, Topic 606, Revenue from Contracts with Customers, should be followed. In addition, once a transaction is deemed to be a contribution, this amended guidance assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purposes or timing. The guidance should be applied on a modified prospective basis. As a resource recipient, the guidance will be effective for SFI the year ending December 31, 2019.

**SANTA FE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018**

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Research and Development Cluster of Programs (Major Program):				
National Science Foundation				
Direct Awards:				
Mathematical and Physical Sciences	47.049	DMR-1608211	\$ -	\$ 156,222
Mathematical and Physical Sciences	47.049	CHE-1648973	81,627	181,326
Mathematical and Physical Sciences	47.049	PHY-1741021	-	16,446
Mathematical and Physical Sciences	47.049	PHY-1740919	-	6,872
Total Mathematical and Physical Sciences CFDA			81,627	360,866
Biological Sciences	47.074	IOS-1545888	-	13,901
Biological Sciences	47.074	IOS-1656849	-	10,839
Biological Sciences	47.074	MCB-1724627	-	5,406
Biological Sciences	47.074	DEB-1745355	-	65,830
Biological Sciences	47.074	DEB 1830688	-	27,979
Total Biological Sciences CFDA			-	123,955
Social, Behavioral, and Economic Sciences	47.075	BCS-1550074	-	26,511
Social, Behavioral, and Economic Sciences	47.075	SMA-1620462	27,452	96,827
Social, Behavioral, and Economic Sciences	47.075	SMA-1735884	-	52,375
Social, Behavioral, and Economic Sciences	47.075	SES-1735467	-	15,402
Social, Behavioral, and Economic Sciences	47.075	BCS-1745154	-	64,825
Social, Behavioral, and Economic Sciences	47.075	SES-1757211	-	31,693
Social, Behavioral, and Economic Sciences	47.075	BCS-1841416	-	13,997
Total Social, Behavioral, and Economic Sciences CFDA			27,452	301,630
Computer and Information Science and Engineering	47.070	ACI-1358567	-	19,005
Computer and Information Science and Engineering	47.070	OAC-1757923	-	75,661
Computer and Information Science and Engineering	47.070	IIS-1832717	-	20,088
Computer and Information Science and Engineering	47.070	IIS-1838251	-	2,751
Total Computer and Information Science and Engineering CFDA			-	117,505
Geosciences	47.050	OPP-1807478	-	2,557
Total Geosciences CFDA			-	2,557
Total Direct National Science Foundation			109,079	906,514
National Science Foundation				
Pass-Through:				
University of Arizona		SUB No. 354350		
Geosciences	47.050	1642894	-	14,459
Total Pass-Through National Science Foundation			-	14,459
Total National Science Foundation			109,079	920,972
Department of Energy				
Pass-Through:				
California Institute of Technology		SUB 65Q-1097563		
Office of Science Financial Assistance Program	81.049	DE-SC0016469	-	88,930
Total Pass-Through Department of Energy			-	88,930
Department of Defense				
Department of the Army - U.S. Army Research Office				
Direct Awards:				
Basic Scientific Research	12.431	W911NF-15-1-0127	-	294,806
Total Direct Department of the Army - US Army Research Office			-	294,806

**SANTA FE INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Pass-Through:				
University of Southern California		SUB 63911022		
Basic Scientific Research	12.431	W911NF-15-1-0259	\$ -	\$ 17,144
Total Pass-Through University of Southern California and Department of the Army - US Army Research Office			-	17,144
Pass-Through:				
Carnegie Mellon University		SUB 1130223-395695		
Basic Scientific Research	12.431	W911NF-17-1-0502	-	9,476
Total Pass-Through University of Southern California and Department of the Army - US Army Research Office			-	9,476
Total Department of the Army - US Army Research Office			-	321,426
U.S. Department of Commerce				
National Institute of Standards and Technology				
Direct Awards:				
Measurement and Engineering Research and Standards	11.609	70NANB12H192	-	(16,864)
Total Direct National Institute of Standards and Technology			-	(16,864)
National Aeronautics and Space Administration				
Direct Awards:				
Aeronautics	43.002	NNX14AI11G	19,214	18,276
Total National Aeronautics and Space Administration			19,214	18,276
Pass-Through:				
University of Wisconsin-Madison		SUB 775K983		
Science	43.001	80NSSC17K0296	-	4,462
Total Pass-Through University of Wisconsin-Madison and National Aeronautics and Space Administration			-	4,462
Pass-Through:				
Georgetown University		Sub AWD7773186-GR205804		
Science	43.001	80NSSC18K1140	-	10,598
Total Pass-Through Georgetown University and National Aeronautics and Space Administration			-	10,598
Total National Aeronautics and Space Administration			19,214	33,336
U.S. Department of Agriculture				
National Institute of Food and Agriculture				
Direct Awards:				
Agriculture and Food Research Initiative	10.310	2018-67023-27677	-	104,144
Total U.S. Department of Agriculture			-	104,144
Total Federal Expenditures and Total Research and Development Cluster of Programs			<u>\$ 128,293</u>	<u>\$ 1,451,945</u>

**SANTA FE INSTITUTE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Santa Fe Institute (the Institute) under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Institute.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 INDIRECT COST RATE

Entity has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 FEDERAL CLUSTER

All of the programs in the Schedule are considered part of the Institute's research and development cluster.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Santa Fe Institute, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Fe Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Fe Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Fe Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Fe Institute’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
September 3, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Santa Fe Institute
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited Santa Fe Institute's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Fe Institute's major federal programs for the year ended December 31, 2018. Santa Fe Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Fe Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Fe Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Fe Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, Santa Fe Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

Santa Fe Institute's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Santa Fe Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Santa Fe Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Fe Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Fe Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-002 that we consider to be significant deficiencies.

Santa Fe Institute's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Santa Fe Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Trustees
Santa Fe Institute

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
September 3, 2019

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? x yes _____ none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes _____ no

Identification of Major Federal Programs

CFDA Number(s)

10.310, 11.609, 12.431, 43.001,
43.002, 47.049, 47.050, 47.070,
47.074, 47.075, 81.049

Name of Federal Program or Cluster

Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2018 – 001 Cash Management and Allowable Activities/Allowable Costs, Including Indirect Costs

Federal agency: (1) R&D Cluster, National Science Foundation (NSF); (2) R&D Cluster, Department of the Army

Federal program: (1) Mathematical and Physical Sciences (47.049), (47.074) Biological Sciences, (47.070) Computer and information Science and Engineering; (2) Basic Scientific Research

CFDA Number: (1) 47.049, 47.074, and 47.070; (2) 12.431

Pass-Through Agency: (1) N/A (2) US Army Research Office

Pass-Through Number(s): (1) N/A (2) W911NF-15-1-0127

Award Period: (1) 47.049 – 6/15/2016 to 5/31/2019, 47.074 – 9/1/2017 to 8/31/2022, 47.070 – 3/1/2018 to 2/28/2021; (2) 5/1/15 to 10/31/2019

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: According to §200.303 Internal controls of 2 CFR Part 200, the non-Federal must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: No approval of the drawdown request prior to submission to the agency.

Questioned costs: None

Context: During our testing, we noted 5 out of 15 drawdown requests did not have an approval prior to submission to the agency.

Cause: Management oversight.

Effect: The auditor noted no instances of noncompliance with the provisions of cash management and indirect costs; however, the lack of internal controls over these compliance requirements provides an opportunity for noncompliance.

Recommendation: We recommend management implement a process to ensure drawdown requests are reviewed and approved prior to submission to the agency. This process should include a primary and backup responsible for the review and approval.

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding.

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2018 – 002 Subrecipient Monitoring

Federal agency: (1) R&D Cluster, National Science Foundation (NSF); (2) R&D Cluster, National Aeronautics and Space Administration (NASA)

Federal program: (1) Mathematical and Physical Sciences; (2) Aeronautics

CFDA Number: (1) 47.049 (2) 43.002

Pass-Through Agency: N/A

Pass-Through Number(s): N/A

Award Period: (1) 9/1/2016 to 8/31/2019; (2) 6/1/2015 to 5/31/2018.

Type of Finding: Significant Deficiency in Internal Control over Compliance; Other Matter

Criteria or specific requirement: According to §200.331 Requirements for pass-through entities of 2 CFR Part 200, all pass-through entities must verify that every subrecipient is audited as required by Subpart F—Audit Requirements of this part when it is expected that the subrecipient’s Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.

Condition: During our testing, we noted SFI did not have a process in place or adequate internal controls designed to verify that every subrecipient is audited as required by Subpart F—Audit Requirements.

Questioned costs: None

**SANTA FE INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

Context: During our testing, it was noted that SFI did not verify that 2 of the 4 subrecipients were audited as required by Subpart F—Audit Requirements when the subrecipient’s Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.

Cause: Management oversight.

Effect: The auditor noted instances of noncompliance with the provisions of subrecipient monitoring as well as a lack of internal controls over this compliance requirement. Without a process in place to verify that every subrecipient is audited as required by Subpart F—Audit Requirements when it is expected that the subrecipient’s Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements, there is a reasonable possibility that deficiencies detected through the annual audit will not have appropriate follow-up by SFI.

Recommendation: We recommend SFI implement a process and design controls to verify that every subrecipient is audited as required by Subpart F—Audit Requirements when it is expected that the subrecipient’s Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements. This process should include appropriate follow-up by SFI on all deficiencies detected through the annual audit pertaining to the Federal award provided to the subrecipient from SFI.

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding.

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an SEC-registered investment advisor. | CliftonLarsonAllen LLP

